

COUNTY OF AMADOR

**Management Report
For the Year Ended June 30, 2008**

Mgt. Ltr.
3/30/09

COUNTY OF AMADOR

Management Report For the Year Ended June 30, 2008

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GALLINA^{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Members of the
Board of Supervisors of the County of Amador
Jackson, California

In planning and performing our audit of the financial statements of the County of Amador (County) as of and for the year ended June 30, 2008, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions concerning these matters. We previously reported on the County's internal control in our report dated March 20, 2009. This letter does not affect our report dated March 20, 2009 on the financial statements of the County of Amador.

To the Honorable Members of the
Board of Supervisors of the County of Amador
Jackson, California

This report is intended for the use of management, the Board of Supervisors, and officials of the federal and state grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

We thank the County's staff for its cooperation during our audit.

A handwritten signature in black ink, appearing to read "Gallina LLP". The signature is written in a cursive, flowing style.

Roseville, California
March 20, 2009

COUNTY OF AMADOR

Management Report Required Communication For the Year Ended June 30, 2008

Professional standards require that we provide you with the following information related to our audit.

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 19, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 19, 2008.

COUNTY OF AMADOR

Management Report Required Communication For the Year Ended June 30, 2008

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences: Management's estimate is based on information collected in the County's payroll system using current pay rates and past experience on employee use of compensating time-off. Our audit agreed balances reported in the financial statements to those in the County's payroll system.
- Capital asset lives and depreciation expense: Management's estimate is based on past experience. We scanned depreciation listings for reasonable compliance to this approach.
- Valuation of risk management liabilities: Management's estimate is derived from loss run reports obtained from experts. We agreed the claims liability reported in the financial statements to information derived from those reports.
- Liability for solid waste landfill postclosure costs: Management's estimate is based on engineering estimates of future costs to be incurred. We reviewed the engineer's estimate.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements noted

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Management Report Required Communication For the Year Ended June 30, 2008

below were detected as a result of audit procedures and were corrected by management:

- Accrue Homeland Security grant funds, in the amount of \$120,681.
- Record deferred revenue of \$460,573 in the fund statements that were not received within the 60-day period of availability.
- Accrue accounts payable of \$246,011 not recorded in the Road fund at June 30, 2008.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 20, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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Management Report Current Year Comments For the Year Ended June 30, 2008

IMPROVE SEGREGATION OF DUTIES OVER PAYROLL PROCESSING AND HR FUNCTION

Criteria

Segregation of incompatible functions is critical to good internal control policies. In the area of payroll, the functions of human resources that include maintaining personnel files, pay rates, benefit management, adding employees and removing employees should be segregated from the function of payroll processing.

The risk of fraud is significantly reduced when the functions are segregated not just with departments and paper documents but also by means of a software solution. In smaller organizations, segregation of duties can be accomplished with paper documents containing authorizing signatures without significantly increasing the risk of misappropriation. In larger organizations, information technology solutions provide the best alternative for preventing fraud.

Condition

At the time of the audit, one employee in the Auditor-Controller's office collected employee time information and processed the related payroll transactions. This same person also maintained the payroll master file in the computer system by making pay-rate changes, adding and removing employees and adjusting employee tax and benefit withholdings. The Auditor-Controller's office maintains a set of employee files documenting employee pay grades and anniversaries. The County's personnel department also maintains current and complete personnel files.

The County has 46 departments and approximately 515 employees classified as exempt or non-exempt, full-time or part-time, and temporary or permanent. Approval of compensation levels are generally authorized by a MOU agreement with each bargaining unit. Each agreement contains a table indicating a range for a position and steps A through E for compensation levels. A personnel action form is required when an employee is hired, terminated, promoted, reclassified or has a status change. The personnel action form is authorized by the personnel department and a copy is forwarded to the Auditor-Controller's office for entry, removal or update in the County's payroll processing module.

Cause

Employees may be compensated using pay rates different than that authorized by MOU compensation tables.

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Management Report Current Year Comments For the Year Ended June 30, 2008

Effect of Condition

Lack of segregation of duties increases the risk that errors or irregularities will occur and not be detected in a timely manner. Because the Auditor-Controller's office has the ability to change personnel information without final review from the personnel department, fraud could occur and not be detected in a timely manner. It is generally more desirable to have segregation of duties between personnel, payroll processing, and payroll distribution functions. Although paper documents along with exception reports provide compensating controls that mitigate the risk of fraud, segregation of duties are significantly improved in larger organizations when the function of human resources is separated from the function of payroll processing using a software solution.

Recommendation

Depending on cost and functionality of the County's current accounting applications, we recommend management investigate options to further segregate the functions of human resources and payroll processing by limiting access to personnel related features to the personnel department and limiting payroll processing features to the Auditor-Controller's office.

Management Response

The Auditor-Controller's office currently utilizes Sunguard Pentamation for payroll processing and all other accounting functions. This software solution also contains modules for human resources management that the County has not yet utilized. Pentamation is used in many other counties and other jurisdictions for human resources functions.

Management is actively engaged in implementing the Pentamation capabilities throughout the County, starting with full implementation of human resources functions. The County's Human Resources Department will take responsibility for personnel-related features to separate these functions from the payroll processing handled by the Auditor-Controller's office. We expect initial implementation by September 1, 2009, with further implementation of additional features throughout the 2009-2010 fiscal year.

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Management Report Current Year Comments For the Year Ended June 30, 2008

AUTOMATE PAYROLL PROCESSING

Criteria

Internal controls are strengthened when software features that include a central position control compensation table are used to establish authorized pay rates in each employee's profile. Efficiencies in processing pay rate changes are achieved when pay rates are linked to a central position control compensation table. Accuracy is also improved.

Condition

Rate changes are processed by manually overwriting the existing rate. When an employee's pay rate changes, staff in the Auditor-Controller's office access the employee's profile in the payroll module and change the pay rate by entering a new rate. When the compensation table for a bargaining group changes such as with a cost of living adjustment, the pay rate must be changed in each employee's profile individually one at a time. The payroll system has a termination process that removes employees so they do not appear in next month's payroll run but the employee's leave bank balances are required to be zeroed out manually. It is our understanding that the employee's profile such as the standard pay codes can be overwritten when entering time during the payroll processing cycle. The system produces a change log which is reviewed by staff independent of payroll processing.

Cause

Pay rates in the County's payroll processing module are entered manually and not from a master control table containing positions and pay grades. When there are multiple pay rate changes such as with a cost of living adjustment, the change is implemented manually rather than from a central position control table. Because the process of removing employee leave banks is manual, employee leave banks may not be cleared out upon termination. Employees may be paid an incorrect amount because of opportunities to enter an incorrect pay rate.

Effect of Condition

The risk of error or misappropriation is increased when pay rate changes are adjusted manually. An error can result from incorrect data input or selection of the wrong rate for the position and/or grade. Amounts paid to employees may not be in accordance with position controls authorized by the Board of Supervisors. Accuracy of payroll transactions is increased when employees are paid from a central position control compensation table. Efficiencies in payroll processing are also achieved by the use of a central position compensation control table.

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Management Report Current Year Comments For the Year Ended June 30, 2008

Recommendation

Depending on cost and functionality of the County's current accounting applications, we recommend management investigate options to automate pay rates by use of a central positional compensation control table in the software.

Management Response

In implementing the available capabilities of Pentamotion, including integrating human resources uses of the software, the County plans to utilize a central positional compensation control table, which will be kept by the Human Resources department. The use of the central positional compensation control table will be completed in the 2009-2010 fiscal year.

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DEVELOP CONSOLIDATED PERSONNEL MANUAL

Criteria

Opportunities to promote uniformity in processing and to emphasize critical roles and activities of the internal control structure are improved when County-wide adopted policies and procedures are consolidated in one central location. Well-written policies and procedures which are frequently updated as changes in policy occur encourage compliance, consistency, sound decision-making and productivity.

Condition

The County has a variety of policy documents concerning personnel related issues but they are not organized in a comprehensive, written personnel policy manual.

Cause

The County issues memorandums from time to time as County-wide policies are documented and communicated. The County has not established an overall framework for a personnel manual in which to insert and add these individual memorandums.

Effect of Condition

Standardizing policies and procedures by making employees aware of them and establishing management's expectations strengthens internal controls and improves compliance with County-wide adopted policies. Not having a comprehensive personnel manual inherently subjects the County to everyday inconsistencies in its operations.

Recommendation

We recommend the County adopt a framework for a comprehensive personnel manual and incorporate the individual policy memorandums. We also recommend posting the document to the County's intranet.

Management Response

Management recognizes the value of a comprehensive personnel manual which is easily assessable on the County's intranet. The update and development of a comprehensive personnel manual is a priority for the Administration/Human Resources departments for the 2009-2010 fiscal year.

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Management Report Current Year Comments For the Year Ended June 30, 2008

COMPLETENESS OF RECEIVABLES

Criteria

Generally under modified accrual accounting, amounts due from other governments includes all amounts for which eligibility criteria have been met regardless of whether the funds were received within the County's 60 day period of availability. Receivables which are received within the 60 day period following the close of the fiscal year are recorded as revenues and receivables received after the 60 day period of availability are recorded as deferred.

Condition

During our audit, we noted unrecorded receivables of \$120,681 related to grants received after the period of availability. We also noted other receivables of \$339,892 received outside the 60 day period of availability which were not recorded as deferred.

Cause

The State's delay this year in making payment on several outstanding grants increased the risk of understatement of receivables and deferred revenues. The County's closing process generally only looks at subsequent receipts through August of the following fiscal year to ensure completeness of receivable balances.

Effect of Condition

By not reviewing other information such as department input besides County receipts for the months of July and August of the following fiscal year, the risk of understatement of receivables is increased especially in years where receipts from the State Controller's Office and other State agencies are delayed for economic reasons.

Recommendation

We recommend the Auditor-Controller's office modify its year-end closing process to query departments about uncollected significant receivables outstanding beyond the period of availability.

Management Response

Management will query departments about significant uncollected receivables at the close of this fiscal year.

COUNTY OF AMADOR

Status of Prior Year Recommendations -- Single Audit For the Year Ended June 30, 2008

Recommendation	Status
PUBLIC ASSISTANCE GRANTS -- CFDA 97.036	
<p>We recommend that the County implement procedures which require that on any federally-funded transaction, which equals or exceeds \$25,000 or for any amount with a subrecipient, that the County check to make sure that the other party to the transaction is not suspended or debarred. Lists of suspended and debarred parties are available online from the Excluded Parties List System at <http://www.epls.gov>.</p>	Implemented